

Message Text

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PAGE 01 SAN JO 01768 082052Z

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 AGR-05 CIAE-00 COME-00 INR-07

LAB-04 NSAE-00 SP-02 STR-04 TRSE-00 CIEP-01 FRB-03

OMB-01 L-03 ITC-01 PA-01 PRS-01 USIA-06 /053 W

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R 082005Z APR 76

FM AMEMBASSY SAN JOSE
TO SECSTATE WASHDC 3478
INFO AMEMBASSY BOGOTA
AMEMBASSY GUATEMALA
AMEMBASSY PANAMA
AMEMBASSY QUITO
AMCONGEN GUAYAQUIL
AMEMBASSY TEGUCIGALPA

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E.O. 11652: N/A

TAGS: ETRD, CS

SUBJECT: BANANAS: TAXES, COSTS, AND COMPETITIVENESS

1. SUMMARY. EMBOFFS, IN RECENT DISCUSSION WITH KEY ADVISOR TO COSTA RICAN GOVERNMENT ON BANANA PROBLEMS, DETECTED GROWING CONCERN ABOUT RELATIVE COMPETITIVENESS OF COSTA RICAN BANANAS. PROBLEM INVOLVES BOTH BANANA TAXES AND RELATIVE COSTS OF PRODUCTION. THE GOVERNMENT IS CONSIDERING NEW BANANA LEGISLATION. END SUMMARY.

2. KEY GOVERNMENT BANANA ADVISOR TOLD EMBOFFS THAT UPEB IS NOW ENGAGED IN A STUDY OF COSTS OF PRODUCTION IN VARIOUS BANANA EXPORTING COUNTRIES. PRELIMINARY FIGURES AVAILABLE TO HIM SHOW THAT COSTA RICA HAS HIGHEST PRODUCTION COST (\$1.60), FOLLOWED BY HONDURAS AND PANAMA (AT ABOUT \$1.58). LOWEST AREA COSTS ARE IN COLOMBIA (ABOUT \$1."3' AND ECUADOR (\$1.28). COSTA RICA'S MINIMUM EXPORT PRICE OF \$2.15 PER BOX WHICH

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PAGE 02 SAN JO 01768 082052Z

MUST BE PAID FOR ALL BANANAS PRODUCED BY INDEPENDENT

PRODUCERS BUT NOT NECESSARY FOR BANANAS GROWN ON

COMPANY PLANTATIONS MAKES THE SITUATION WORSE.

3. COSTA RICA ALSO HAS THE HIGHEST BANANA TAX. ITS 45 CENT TAX COMPARES TO 35 CENTS IN HONDURAS AND PANAMA AND ZERO IN ECUADOR. PARTIALLY OFFSETTING THE TAX DIFFERENCE IN FAVOR OF ECUADOR IS THE HIGHEST FREIGHT

THAT ECUADOR MUST PAY TO THE U.S. MARKET (ESTIMATED AT 35 CENTS PER BOX BY THE SOURCE). ALSO COSTA RICAN BANANAS, BEING OF HIGHER QUALITY, WOULD RATE A QUALITY DIFFERENTIAL.

4. SOURCE CONFIRMED THAT THE GOVERNMENT IS WORKING ON A NEW BANANA LAW, BUT THE PROJECT IS AT AN EARLY STAGE. NO DRAFT YET EXISTS. HE SAID THAT THE NEW LAW COULD WELL MAKE CHANGES IN THE TAX SYSTEM THAT WOULD REDUCE THE OVERALL TAX BURDEN ON COSTA RICAN BANANAS. A REDUCTION IN THE BANANA TAX WOULD NOT BE POLITICALLY FEASIBLE AS A SEPARATE MEASURE, THE SOURCE STATED, BUT COULD BE UNDERTAKEN AS PART OF A WHOLE NEW LEGAL STRUCTURE FOR THE BANANA INDUSTRY.

5. COMMENTS: A NEW LEGAL FRAMEWORK FOR THE BANANA INDUSTRY WOULD BE LIKELY TO ELIMINATE UNITED BRANDS' LONGSTANDING CONTRACT HERE, THE BENEFITS OF WHICH ALSO ACCRUE TO OTHER COMPANIES THROUGH THE MOST FAVORED COMPANY PRINCIPLE. THIS CONTRACT IS CONSIDERED BY THE GOVERNMENT TO BE THE RELIC OF A BYGONE ERA, WHICH TO A GREAT EXTENT IT IS, AS COSTA RICA IS THE ONLY COUNTRY WHERE THE COMPANIES STILL OPERATE UNDER CONCESSION ARRANGEMENTS. UNITED BRANDS, IN THE EMBASSY'S JUDGMENT, WOULD PROBABLY BE WILLING TO GIVE UP ITS CONTRACT AND ABANDON ITS LEGAL CASE, WHICH ASSERTS THAT THE GOVERNMENT'S BANANA TAX IS UNCONSTITUTIONAL, IN RETURN FOR A NEW LEGAL FRAMEWORK THAT WOULD IMPROVE ITS DE FACTO TAX SITUATION HERE AND CONFIRM THE NEW MORE COOPERATIVE AND PRODUCTIVE RELATIONSHIP THAT HAS EXISTED BETWEEN THE BANANA COMPANIES AND THE GOVERNMENT SINCE LIMITED OFFICIAL USE

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PAGE 03 SAN JO 01768 082052Z

THE DE FACTO SETTLEMENT OF THE TAX QUESTION AND THE CEDING OF UNUSED BANANA LANDS.

6. ONE POSSIBLE MEANS BEING DISCUSSED HERE OF REDUCING THE EFFECTIVE TAX ON BANANA EXPORTS WOULD BE TO FIX THE TAX YIELD AT A CERTAIN DOLLAR LEVEL SO THAT INCREASED EXPORTS WOULD RESULT IN A LOWER PER UNIT TAX.

7. THE MAIN DANGER IN ATTEMPTING TO ENACT NEW BANANA
LEGISLATION IS THAT RADICAL ELEMENTS IN THE CONGRESS
WOULD PROBABLY TRY TO USE IT AS A VEHICLE TO ATTACK
THE BANANA COMPANIES AND THE GOVERNMENT. WHAT EMERGED
FROM THE CONGRESS MIGHT BE WORSE THAN THE PRESENT
STRUCTURE UNDER WHICH THE COMPANIES OPERATE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BANANAS, DIPLOMATIC DISCUSSIONS, STUDIES, EXPORTERS
Control Number: n/a
Copy: SINGLE
Draft Date: 08 APR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: coburnhl
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976SANJO01768
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760134-0223
From: SAN JOSE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760483/aaaacskc.tel
Line Count: 122
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: coburnhl
Review Comment: n/a
Review Content Flags:
Review Date: 15 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 JUL 2004 by coburnhl>; APPROVED <26 OCT 2004 by coburnhl>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BANANAS: TAXES, COSTS, AND COMPETITIVENESS
TAGS: ETRD, EPAP, CS, UPEB
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006